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RUEHBJ/AMEMBASSY BEIJING 0021
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RUEHHK/AMCONSUL HONG KONG 0013
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UNCLAS SECTION 01 OF 02 NDJAMENA 001089

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DEPT FOR AF, EB, ENERGY FOR CAROLYN GAY AND GEORGE PEARSON,
TREASURY FOR OTA, LONDON AND PARIS FOR AFRICA WATCHERS

E.O. 12958: N/A
TAGS: ECON EFIN ENRG EPET PGOV CD
SUBJECT: CHAD DELIVERS OIL ULTIMATUM

¶1. (SBU) SUMMARY: Over the weekend, President Deby announced that the Government of Chad is instructing Oil Consortium members Chevron and Petronas to "close operations" and leave the country immediately, for alleged failure to pay income taxes. He has also announced the creation of a national commission to begin the process of renegotiating the 1988 Convention with the Consortium. Earlier in the week, Chevron and Petronas stated that, based on their 2000 tax arrangement with the GOC, they do not owe any taxes at this time to the Government. Chevron, Petronas, and Exxon-Mobil, the oil consortium's operator in Chad, are still considering their response to the GOC's announcement. END SUMMARY.

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DEBY TELLS CHEVRON AND PETRONAS TO LEAVE
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¶1. (SBU) On August 26, President Idriss Deby Itno convened an inter-ministerial council meeting, which also included members of the country's National Assembly and local press, to announce that the Government of Chad was instructing Oil Consortium members Chevron and Petronas to leave the country, for what the GOC asserted was the companies' failure to pay income taxes it owed the Government. (COMMENT: Chevron and Petronas do not actually have a presence in the country, as Exxon-Mobil is the sole operator for the Consortium. However, Chevron has requested three American employees who work jointly for Esso and Chevron to depart on the next available flight. END COMMENT)

¶2. (SBU) President Deby also announced that the GOC would create a national commission to begin negotiations on amending the 1988 Convention with Esso in order to include the Government as a full-fledged member of the Consortium. Deby asserted that Chad, like Esso, should be able to benefit from the income generated from the country's oil production. He also announced the GOC's intention to press

charges against those officials who negotiated the tax arrangement with Chevron and Petronas in 2000. He claimed that these officials were not authorized to negotiate this arrangement, and should be held accountable for their actions (NOTE: While he did not mention their names, Minister of Petroleum Mahamat Nasser Hassan is one of the individuals implicated in the negotiation of this tax arrangement. It is unclear if charges have been officially filed against him).

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CHEVRON AND PETRONAS' EXPLANATION OF THE ISSUE
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¶3. (SBU) Representatives from Chevron and Petronas briefed Ambassador Wall on August 23 on recent discussions with GOC officials on the tax dispute between the Government and the Consortium partners. Carole Rock, Chad country manager, explained to the Ambassador that both Chevron and Petronas had entered into an agreement with the GOC in 2000 to receive specific tax benefits while conducting their operations (these arrangements followed Chevron and Petronas' decision to replace Elf and Shell as Consortium partners in 2000). After filing their 2005 income tax returns in March of 2006, the GOC began to question the fact that Chevron and Petronas' tax payments were nowhere near the range of Exxon Mobil's payments in 2006. In particular, they objected to the fact that, unlike Exxon- Mobil, Chevron and Petronas did not have a specific depreciation schedule, which permitted the Consortium partners to claim more tax deductions than they are entitled to receive.

¶4. (SBU) According to Chevron and Petronas, the non-

proportional manner in which the Consortium divided its distribution and profit of crude oil sales meant that Chevron and Petronas did not necessarily pay taxes proportional to Esso's taxes (in fact, Rock asserted that using Esso's depreciation scale, Chevron would only owe the GOC close to 2 million USD for 2005). Rock said that Chevron and Petronas conveyed their willingness to the GOC to discuss changes to the amortization schedule.

¶5. (SBU) Nevertheless, according to the Chevron representative, the GOC notified the companies on July 25 that the 2000 tax benefits agreement was not valid. The GOC asserted that officials who negotiated the agreement were not authorized by the Government to make such arrangements. Rock said that Chevron and Petronas could not accept the GOC's response, because the Government appeared to be violating its contractual obligation with the Consortium. She noted that during a meeting with Minister of Finance Abbas Tolli earlier in the day, the Finance Minister said that the GOC was sticking to its position, asserting that bilateral arrangements must go through a legal process and be approved by the Chad's National Assembly, and therefore the tax benefits arrangement was not approved through the normal legal mechanism (Minister of Petroleum Mahamat Hassan Nasser reiterated the GOC position to the company representatives on the following day). Rock and Petronas Country Manager Alais Yonus told the Ambassador that while Chevron and Petronas would use all available diplomatic means to resolve the tax dispute, the possibility of international arbitration with the GOC always existed.

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ESSO FORMULATING ITS RESPONSE
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¶6. (SBU) Concerning the President's announcement of a national commission to renegotiate the Convention, Esso Country Manager Ron Royal, who was also present at the August 23 meeting with representatives with Chevron and Petronas, told the Ambassador that the Consortium partners

agreed that, consistent with Article 38 of the Convention, which states that any renegotiation of the Convention required approval from both parties, the Consortium would not/not agree to any renegotiation plans. However, Esso Public Affairs Advisor Miles Shaw told Economic/Consular Officer on August 26 that, given the GOC's recent decision against Chevron and Petronas, the Consortium would consult with partners to reconsider its strategy given the new developments.

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COMMENT
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¶7. (SBU) Deby's announcement is clearly the boldest move by the GOC against the Consortium. The Government appears to have an overall strategy to pressure the oil companies to reap greater benefits from the country's oil production. The presence of China as a potential oil player is probably emboldening the GOC in its endeavor to alter its arrangement with the Consortium. We will report on reactions from the Consortium as soon as they become available.

WALL